

STRATEGIES INTENDED TO STRENGTHEN BENEFIS' ABILITY TO IMPROVE ITS COMPETITIVE POSITION

Plans Being Implemented:

- Strengthen Benefis Healthcare Practitioners
 - Hire experienced, professional manager (search in progress) (Terry, Paul)
 - Affiliation with Billings Clinic for back-up and technical expertise (have already discussed with BC and we are negotiating an agreement) (Laura, Paul)
 - Have in place an effective, viable alternative for physicians who choose to leave the Great Falls Clinic but want employment and want to remain in Great Falls
 - Create an effective, viable practice support services (MSO) for physicians who want that alternative in Great Falls and do not want employment
- Recruitment to:
 - Fill panel gaps to enable a viable Montana Care alternative (Pediatrics for example) (Paul)
 - Fill gaps in specialist coverage (interventional cardiology for example) (Paul)
- Develop insurance alternatives (both for self insured and fully insured businesses) (Wayne)
- Put in place mechanisms to assure Benefis employees use Benefis services when available (done 6-15-06).
- Create new/expanded hospital/physician partnering opportunities:
 - Win/Win joint ventures (when advisable and legal)
 - Clinical service line management agreements (where appropriate) (none currently)
- Development of specialized treatment facilities, such as:
 - Cancer Center (complete)
 - Heart Tower (architectural plans in process. Contractor selected. Groundbreaking in fall.)
 - Orthopedic Center (discussions in process)
- Seek elimination (substantial reduction at least) of COPA so we aren't competing with the Great Falls Clinic/Essentia with one arm tied behind our back (in process) (John, Neil)
- Sunset PAC, form SAC (completed) (Paul)
- Replace the hospitalist program (Sound Inpatient Physicians selected) (Paul)
- Remove GFC partners from Benefis Medical Director roles if sufficient conflict of interest or director publically does not support Benefis (Dr. Warr given 90-day notice on June 21, 2006).
 - Work with NMHA Board on a regional strategy (Jack, Laura)
 - Work with MHA on 2007 legislative agenda (John)
 - Continue to educate our community/region on Benefis (Communications Task Force)
 - Educate patients on choice and technology (e.g. Cyber Knife vs. Gamma Knife)
 - Assure patient friendly service (such as registration) at all Benefis services (Operations Team)
 - Consult with national physician experts on physician-hospital competition and related strategies (John) - Bard Group visit on July 20-21. Their report received 08/09/06.

Additional Items Being Developed or Considered

- Board policy requiring declaration of conflict of interest at time of privileging/re-credentialing (Keith A.)
- Expansion of exclusive arrangements

**STANDARD
& POOR'S****RatingsDirect****RESEARCH****Benefis Healthcare, Montana; Hospital**

Publication date: 16-Feb-2007
 Primary Credit Analyst: Geraldine Poon, San Francisco (1) 415-371-5078;
 geraldine_poon@standardandpoors.com
 Secondary Credit Analyst: Brian T Williamson, Chicago (1) 312-233-7009;
 brian_williamson@standardandpoors.com

Credit Profile

US\$125. mil hosp rev bnds (Benefis Healthcare) ser 2007 dtd 03/29/2007 due 01/01/2037

Long Term Rating

A-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A-' rating to Montana Facility Finance Authority's \$125 million revenue bonds, series 2007, to be issued for Benefis Healthcare. Benefis, which was affiliated with Providence Health & Services (PH&S; 'AA' rating) until Sept. 30, 2006, benefits from a sound business position in north-central Montana. As a result, the organization has posted solid financial results both prior to and following the disaffiliation. The rating is based on Benefis's:

- z Dominant business position, covering an expansive service area, with 97% market share in its primary service area;
- z Track record of solid operations;
- z Potential for an improved balance sheet, as capital projects are supported with bond proceeds and unrestricted cash reserves that are expected to increase incrementally; and
- z Sound management team, which has guided the organization through a period of transition following its disaffiliation with PH&S.

Credit concerns include some near-term pressure on the pro forma balance sheet (particularly with respect to cash-to-debt), the inherent risks involved with a sizeable construction project, as well as the evolving competitive landscape with a new for-profit competitor in Great Falls. Though Benefis enjoys a sound business position, significant declines in volumes would be a significant credit concern.

The bond proceeds will support the construction of a new patient tower for cardiac services, women's services, and pediatrics (scheduled completion in 2009), as well as renovation and expansion of existing buildings. The bonds are secured by a gross revenue pledge. Benefis is not party to any swap transactions.

Benefis operates two campuses with 480 staffed beds in Great Falls, Mont. The system's expansive service area includes 14 counties in north-central Montana, with a population of nearly 230,000. The Benefis East Campus is the main campus, and where the new tower will be located, while the West Campus (4 miles apart), houses psychiatry and rehabilitation, among other things. The organization is a Level II trauma center and services a 200-mile-radius area with its air ambulance service. Benefis also provides cancer services at the Sletten Cancer Institute, which is funded in great part with philanthropy. Although Benefis enjoys a solid business position, with a primary service area market share of 97%, the competitive landscape has shifted with the introduction of a new small hospital, Central Montana Hospital (physician owned in partnership with Essentia, see below). Volumes have been relatively stable, with admissions at around 14,000. In 2006 volumes declined slightly to 14,087 from 14,447 in 2005, in large part due to the introduction of competition. Similarly, inpatient surgeries dropped to 3,934 from 4,293 the previous year. Management has budgeted a drop in volumes in 2007 due to the increased competition.

Benefis has developed a solid track record of financial results, both prior to and following its disaffiliation with PH&S. Based on audited nine-month fiscal 2006 and fiscal 2005 financials, operating margins were consistent at just under 4.0%. It's important to note that the organization's price increases and revenues are limited by legislation (see section below on Certificate of Public Advantage, or COPA). The system



GREAT FALLS CLINIC, LLP

GFC-Specialty Center
3000 15th Avenue South
Great Falls, MT 59405
406-454-2171

Clinic Cancer Care
3000 15th Avenue South
Great Falls, MT 59405
406-454-2171

GFC-Immediate Care Center
1400 29th Street South
Great Falls, MT 59405
406-454-2171

GFC-Marketplace
2012 14th Street Southwest
Great Falls, MT 59404
406-727-7171

GFC-Northwest Clinic
1600 Division Road
Great Falls, MT 59404
406-268-1600

GFC-Choteau Clinic
914 4th Street NW
Choteau, MT 59422
406-466-3255

GFC-Fairfield Clinic
324 Central Ave.
Fairfield, MT 59436
406-467-2304

Helena Physicians' Clinic
3330 Ptarmigan Lane
Helena, MT 59602
406-442-3570

Helena Physicians' Clinic Vision Center
1005 Partridge Place
Suite 6
Helena, MT 59604
406-444-5180

February 6, 2007

RE: Benefis Hospital offer for employment

To Whom It May Concern:

I arrived here and started work at the Great Falls Clinic in September of 2005. Within approximately four months, my wife and I attended the Margaritaville Fund Raising party. I believe in January of 2006. At that time, we were at a table with a number of our neighbors, including Terry Olinger, who is in the administrative area of Benefis Hospital.

Terry approached my wife, at that time, and said that the hospital liked me very much and asked her how much money would it take for me to come and work for the hospital. My wife responded by saying, "How much are you willing to pay?" At that time, Terry Olinger's response to my wife was that they would pay me \$2,000,000 over a 1 1/2-3 year period. My wife then asked about the penalty that would need to be paid to the clinic for me leaving, and he said that the hospital would take care of that, as well as my malpractice insurance, and any other expenses incurred by my moving my employment from the Great Falls Clinic to the hospital. I was never approached directly, but this was done tangentially through my wife.

In summary, the hospital was willing to pay \$2,000,000 plus any other expenses in order for me to move my employment from the Great Falls Clinic to Benefis Hospital. I do not have those exact dates; however, if necessary I could go back and corroborate the exact dates.

Sincerely,

James L. Whittle, MD

JW/lms

Wed Jan 17, 2007 8:47 am From: JOHN H GOODNOW

Dear Benefis Employees:

As you'll recall from the last employee forums when we discussed the need to eliminate COPA, we talked about needing your support with our local legislators. That time has come. We are pursuing legislative elimination of COPA. The elimination of COPA is very important to the continued success of Benefis Healthcare.

The Great Falls Clinic, our competitor, is actively opposing the elimination. They want COPA to stay in place to hamper Benefis' ability to compete with them. We want COPA to go away so we can compete on a more level playing field.

The bill to sunset the COPA is moving forward. At various stages in the legislative process, we will call on you for your support. This is one of those stages. Please take a few seconds to follow the simple instructions below and send a mass email to our Cascade County delegation. Thank you so much for your attention to this urgent matter.

Sincerely,
John Goodnow, CEO

Instructions: please cut and paste the following email addresses into the "to:" field above. Then fill in the blanks (in the letter text and signature) with your personal information, delete these instructions, the greeting above, and send. This is a critical issue for your community hospital and your support makes a huge difference. Thanks for your help!

intic@sofast.net
suedickenson@yahoo.com
dkottel@ugf.edu
bw22@bresnan.net
evef@bresnan.net
trudi@in-tch.com
tropila@mt.net
senatorodonryan@msn.com

Dear Members of Our Cascade County Legislative Delegation:

I am a [nurse/community member/doctor/trustee/employee/Chamber of Commerce member/member of the Great Falls Catholic community, etc.] and I am writing to urge you to cosponsor the bill to sunset the COPA. The COPA is jeopardizing the financial welfare of our only community-based, mission-driven, not-for-profit hospital. This bill will be circulated for signatures this week and I hope we can count on your support. This is a very important issue for our community -- please sign on! COPA needs to be eliminated.

Sincerely,

Your name and address

>-----Original Message-----
>From: "John Goodnow"@benefis.org [mailto:"John Goodnow"@benefis.org]
>Sent: Tuesday, February 06, 2007 8:29 AM
>To: Bagley, Donna; Cole, Charles; Paladichuk, Jennifer; Rafferty, Gary;
>Astin, Amy; Avis, Kathie; Bagley, Brian; Bolton, Brenda; Burton, Anastasia;
>Cann, Kari; Clements, Stacy; Cook, Crystal; Dunn, Wayne; Dyke, Floris;
>Emond, Gwen; Erickson, Mary; Feldman, Courtney; Goldhahn, Laura;
>Goodnow, John; Hackett, Cheryl; Harris, Angie; Hickethier, Julie;
>Jeppesen, Debbie; Larson, Diane; LoDuca, Joseph; Lyman, Tiffany;
>Matiska, Rick; McCracken, Debbie; McCullough, Bryan; McCulloch, Linda;
>Nelson, Vickie; Oemichen, Susan; Olinger, Terry; Randono, Margaret;
>Schlosser, Gerald; Schultz, Laura; Smith, Betsy; Smith, Scott S;

>Spragg, Diana; Susemihl, Kristie; Terry, Sue; Utterback, Stacey;
>Volkomener, Mark; Weiss, Pamela; Willey, Dawn; Worth, Claire
>Subject: URGENT!!! PLEASE CALL 771-9824 TO VOTE FOR ELIMINATION OF COPA

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>
>
>Dear Benefis Employees

>
>Please call in to 771-9824 to vote YES - Benefis should be released from
>COPA.

>We need your yes votes to be counted.

>I just called in - it only takes a few seconds. Please do it now.

>
>Thanks,

>
>John

>
>From: Hanson, Brandy

>Sent: Tuesday, February 06, 2007 8:45 AM

>To: Admin Council; Managers

>Subject: Trib Poll

>Importance: High

>
>
>All,

>
>As you may be aware, there was a front page story this morning in the
>Great Falls Tribune outlining yesterday's events in Helena. On the
>Montana section, front page, left hand side, they are polling for the
>question Do you think the Legislature should end state oversight of
>Benefis?

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>The number to call to answer Yes, is 771-9824 or you can vote online at
>www.greatfallstribune.com/forums and click on Daily Question Buzz.

>
>Brandy

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>SENT TO: #MOX.USERS

From predictions to trailers, check out the MSN Entertainment Guide to the Academy Awards®

<http://movies.msn.com/movies/oscars2007/?icid=ncoscartagline1>